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TO: Members of the Energy and Technology Committee

FROM: PACENow

DATE: March 16, 2015

RE: H.B. No. 6995 (RAISED) AN ACT CONCERNING A RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY PROGRAM.

About PACE*Now*

PACE*Now* is the leading research and advocacy non-profit organization supporting Property Assessed Clean Energy (PACE) in the country. Funded primarily through foundations, PACE*Now* supports efforts of states to design and implement effective PACE policy. We are writing to encourage Connecticut to pass residential PACE policy. We believe there are several ways in which the state can implement a successful "R-PACE" policy while taking into account the needs of key stakeholders, including homeowners, the banking community, and federal regulators.

I am submitting this testimony on behalf of PACE*Now*, where I serve as a Senior Fellow. I was also the former Director of the Commercial and Industrial Programs at the Connecticut Green Bank, a position that involved managing the C-PACE program for the state.

Connecticut's PACE Experience

When Connecticut passed policy in 2012 enabling commercial property owners to access Property Assessed Clean Energy (PACE) financing, it quickly built the most successful program in the country. In terms of amount of capital invested, clean energy deployed, and economic development spurred, Connecticut has done more with its "C-PACE" program than any other state in the country. C-PACE has thrived in Connecticut due to the partnership of state and municipal governments, energy contractors and building owners, the banking industry and the utilities. As the state legislature contemplates expanding the scope of the PACE program to include the residential sector, we encourage the same approach to building a program that garners the support of a wide range of stakeholders.

Experience from around the country suggests the key ingredients for a successful PACE program. Many of them are already built into CT's C-PACE statute, including the lien priority, the statewide standardization, the designation of a statewide administrator, and ability for private capital to invest in projects. With those building blocks in place on the commercial side, CT is well-positioned to design a successful R-PACE program.

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Connecticut's experience on the commercial side also suggests that R-PACE could provide much benefit to the states. In its two year history, the award-winning C-PACE program has:

- led to over $60 million in approved transactions in two years,
- tripled the number of buildings receiving new financing from the program from 20 in 2013 to over 60 in 2014,
- upgraded properties occupying more than 5 million sq. ft,
- installed more than 6 megawatts of clean energy,
- enabled an average reduction of between 20 to 40% on energy bills,
- enabled solar improvements, which are overwhelmingly delivering more than 50%, energy cost savings on average, with many projects offering savings over 90%,
- led to the partnership of the CT Green Bank with more than 105 Connecticut cities and towns which have signed up to participate in C-PACE, and
- supported the training of over 100 contractors to implement C-PACE-financed improvements.

Developing a Residential PACE program:

Experience in California suggests that Connecticut would be able to accelerate clean energy improvements with effective R-PACE policy. In 2014, property-assessed clean energy (PACE), which delivered energy efficiency and solar to 25,000 homeowners in California in 2014, totaling $500 million -- more than double the volume of the statewide Energy Upgrade California Home Upgrade program during the same period.

Developing a residential program needs to take into account protecting homeowners, as well as the concerns from the mortgage community and federal regulators. There are a few fundamental elements that ought to be made clear in statute:

- the R-PACE lien needs to be senior to other debt on the property
- the improvements must be qualifying energy improvements and permanently affixed to the property
- the homeowner must be notified of the risks associated with R-PACE
- the program should be administered by the Connecticut Green Bank
- the home must be located in a municipality which agreed to collect the assessments

There are several ways Connecticut can further protect stakeholders' interests through the development of program guidelines:

- contractor quality: program should require that contractors be experienced, licensed, insured, bonded, and accredited,
- product quality: programs should provide eligible lists of products that must meet minimum efficiency and/or other performance standards,

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- permits: project completion sign-off should include a check that all required permits have been received from local government jurisdictions,
- quality assurance: work should be spot checked by a third party firm,
- problem solving: PACE programs should provide for dispute resolution, project sign-off before payment, and sanctioning of contractors that do not perform to standards,
- limit funding to homes that have positive equity and homeowners who have not had a history of bankruptcy or delinquency in property tax and mortgage payments,
- require that lenders financing R-PACE transactions make financing terms clear. PACE programs ought to provide clear and detailed information on all repayment terms, including periodicity of payments, duration of payments, and the rate of interest applied to the amount borrowed. Homeowners who use credit cards, home equity lines and loans, or other forms of unsecured debt may incur changing repayment terms in the future.
- make consequences of default clear. PACE uses a property assessment that, in the event of non-payment, can result in a municipal foreclosure. In most states, homeowners are not able to choose among taxes and assessments that are owed, so a homeowner's inability to make a PACE payment likely reflects an inability to pay other taxes, and possibly mortgage payments as well. PACE programs should provide clear disclosure of the possible consequences of non-payment to participating homeowners. Because PACE assessments are linked to a property, as opposed to the homeowner, non-acceleration of a PACE assessment means homeowners are not liable for future, unpaid PACE assessments, which would not be the case for energy efficiency or renewable energy projects funded with secured or unsecured loan products in the event of default.
- consider the creation of a reserve that would be self-sustaining by charging participating homeowners something like a 2% upfront premium, financed over the life of the project. This reserve fund could protect mortgage holders against delinquent payments.

Is Residential PACE good for homeowners?

Studies have shown that homeowners who invest in EE and RE tend to be more responsible mortgage customers. In fact, a 2013 Institute for Market Transformation study revealed that the more efficient the home, the lower the default risk. IMT's research based on a national sample of over 70,000 homes showed that mortgage defaults risk for energy efficient homes are 32 percent lower.[1]

A number of recent studies show that EE and RE make homes more valuable, including Lawrence Berkeley National Laboratory's 2015 report "Selling Into the Sun" that analyzed sales of homes with solar panels in eight states spanning years from 2002 to 2013 found that "PV consistently adds value across a variety of states, housing and PV markets, and home types."[2] Additionally, a 2012 study led by

[1] Institute for Market Transformation and University of North Carolina. Home Energy Efficiency and Mortgage Risks. March 2013. Available at http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf

[2] Hoen, Ben, Sandra Adomatis, Thomas Jackson, Joshua Graff-Zivin, Mark Thayer, Geoffrey T. Klise, and Ryan H. Wiser. Lawrence Berkley National Laboratory. *Selling Into the Sun: Price Premium Analysis of a Multi-State Dataset of Solar Homes* (Jan 2015), available at: http://emp.lbl.gov/sites/all/files/selling-into-the-sun-jan12.pdf

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Maastrich University in the Netherlands found that homes that have achieved home energy performance ratings such as LEED or ENEGY STAR are selling for 9 percent more.[3] Moreover, a study in the Journal of Sustainable Real Estate indicated that "ENERGY STAR homes originally sold for $8.66 more per square foot than non-ENERGY STAR homes."[4] Consistent findings were also made by the California Energy Commission in 2011[5] that maintained that a $1 reduction in annual energy bills resulted in a $10 increase in home resale value.

Conclusion

Based on CT's successful experience with commercial PACE and the many ways to design a responsible R-PACE program, PACE*Now* respectfully encourages the Connecticut state legislature to pass residential PACE policy.

[3] Niks Kok, Maastrich University & University of California, Berkley and Matthew E. Kahn, University of California, Los Angeles, *The Value of Green Labels in the California Housing Market.* (July 20120) available at http://www.pacenow.org/wp-content/uploads/2012/08/KK_Green_Homes_0719121.pdf

[4] Bryan Bloom, MaryEllen C. Nobe, and Michael D. Nobe, *Valuing Green Home Designs: A Study of ENERGY STAR Homes*, JOSRE, Vol 3, No. 1, 2011, available at http://www.josre.org/wp-content/uploads/2012/09/Valuing_Green_Home_Designs_ENERGY-STAR-Homes-JOSRE_v3-61.pdf

[5] California Energy Commission, What is Your Home Energy Rating? (2011) available at: http://www.energy.ca.gov/2009publications/CEC-400-2009-008/CEC-400-2009-008-BR-REV1.PDF